

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Harbor-Petoskey Area Airport Authority	County Emmet
Fiscal Year End 6/30/2006	Opinion Date 11/14/2006	Date Audit Report Submitted to State 12/27/2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

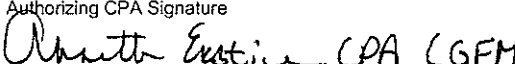
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 231-627-3143	
Street Address 902 S. HURON STREET, PO BOX 250		City CHEBOYGAN	State MI
		Zip 49721	
Authorizing CPA Signature 	Printed Name ANNETTE EUSTICE, CPA, CGFM		License Number 1101019667

**HARBOR-PETOSKEY AREA
AIRPORT AUTHORITY**

HARBOR SPRINGS, MICHIGAN

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2006**

HARBOR-PETOSKEY AREA AIRPORT AUTHORITY

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INDEPENDENT AUDITORS' REPORT

November 14, 2006

Members of the Board
Harbor-Petoskey Area Airport Authority
Harbor Springs, Michigan

We have audited the accompanying basic financial statements of the **Harbor-Petoskey Area Airport Authority** (the "Authority"), as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2006 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2006, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages I - III is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Management's Discussion and Analysis

As management of **Harbor-Petoskey Area Airport Authority** (the "Authority"), a non-profit Michigan corporation located in Emmet County, Michigan, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended June 30, 2006 and 2005. Please read it in conjunction with the Authority's financial statements, which immediately follow this section.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise two components: 1) government-wide financial statements (same as fund financial statements) and 2) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements report functions of the Authority that are principally supported by charges for services and member appropriations (*business-type activities*).

Proprietary funds. The Authority is a proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Authority uses the enterprise fund to account for its airport operations. Proprietary funds provide the same type of information as the government-wide financial statements.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements. These notes to the financial statements can be found on pages 6-13 of this report.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, assets exceeded liabilities by \$1,178,048 at the close of fiscal 2006.

Approximately 90% of the Authority's net assets reflect its investment in net capital assets. The Authority uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. The remaining balance of unrestricted net assets (\$139,738) may be used to meet the Authority's ongoing obligations to its creditors.

Harbor-Petoskey Area Airport Authority
Condensed Statement of Net Assets

	<u>2006</u>	<u>2005</u>
Assets		
Current assets	\$ 184,953	\$ 181,521
Capital assets, net of accumulated depreciation	<u>1,038,310</u>	<u>545,597</u>
Total assets	<u>1,223,263</u>	<u>727,118</u>
Liabilities		
Current liabilities	<u>45,215</u>	<u>42,926</u>
Net assets		
Invested in capital assets	1,038,310	545,597
Unrestricted	<u>139,738</u>	<u>138,595</u>
Total net assets	<u>\$ 1,178,048</u>	<u>\$ 684,192</u>

At June 30, 2006, the Authority was able to report positive balances in both categories of net assets.

Harbor-Petoskey Area Airport Authority
Condensed Statement of Change in Net Assets

	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 684,924	\$ 566,438
Operating expenses	<u>788,770</u>	<u>664,785</u>
Operating loss	(103,846)	(98,347)
Non-operating income	<u>597,702</u>	<u>100,094</u>
Change in net assets	493,856	1,747
Net assets, beginning of year	<u>684,192</u>	<u>682,445</u>
Net assets, end of year	<u>\$ 1,178,048</u>	<u>\$ 684,192</u>

As shown above, the current year operating loss was \$103,846. Operating revenues are directly related to operating expenses. The Authority relies on member appropriations each year from local units of government to help offset costs. The Authority experienced an increase in net assets during fiscal 2006 primarily due to Michigan Department of Transportation grants for airport improvements.

Capital Assets

At June 30, 2006, the Authority had \$1,038,310 invested in capital assets. The following table summarizes the capital asset activity for the year:

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
Assets not being depreciated	\$ 1,120	\$ 49,820	\$ -	\$ 50,940
Assets being depreciated	<u>848,153</u>	<u>505,207</u>	<u>(4,555)</u>	<u>1,348,805</u>
Total capital assets	849,273	555,027	(4,555)	1,399,745
Less accumulated depreciation	<u>(303,676)</u>	<u>(62,314)</u>	<u>4,555</u>	<u>(361,435)</u>
Net capital assets	<u>\$ 545,597</u>	<u>\$ 492,713</u>	<u>\$ -</u>	<u>\$ 1,038,310</u>

Of current year additions to capital assets, \$503,538 was for parallel taxiway improvements, construction of taxi streets, and construction of medium intensity taxiway lights. These capital assets were purchased with State grant monies. At June 30, 2006, construction-in-progress on the parking lot and south side hangar area taxi lanes amounted to \$49,820.

Economic Factors

The Authority is a small local airport that relies primarily on fuel sales, various rentals and fees and appropriations from participating local units of government for its support. The participating units include the City of Petoskey, City of Harbor Springs and the Townships of Bear Creek, Little Traverse, West Traverse and Pleasantview. Each municipality pays up to .03 mills on the taxable value of the municipality. In the current year, the Authority levied .028 mills.

The 2006/2007 budget projects continued growth in taxable property values which will result in increased member appropriations. The budget includes expenses similar to the Authority's fiscal 2006 expenses with minimal variations.

Financial Contact

The Authority's financial statements are designed to present users with a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Chairman of the Board of Harbor-Petoskey Area Airport Authority, 8479 M-119 Highway, PO Box 274, Conway, MI 49722-0274.

HARBOR-PETOSKEY AREA AIRPORT AUTHORITY

STATEMENT OF NET ASSETS

JUNE 30, 2006

Assets

Current assets

Cash and cash equivalents	\$ 39,697
Accounts receivable	93,884
Inventory	40,402
Prepaid expenses	<u>10,970</u>

Total current assets **184,953**

Noncurrent assets

Capital assets not being depreciated	50,940
Capital assets, net of depreciation	<u>987,370</u>

Total noncurrent assets **1,038,310**

Total assets **1,223,263**

Liabilities

Current liabilities

Accounts payable	41,130
Accrued expenses	2,263
Unearned revenue	<u>1,822</u>

Total liabilities **45,215**

Net assets

Investment in capital assets	1,038,310
Unrestricted	<u>139,738</u>

Total net assets **\$ 1,178,048**

The accompanying notes are an integral part of these financial statements.

HARBOR-PETOSKEY AREA AIRPORT AUTHORITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

Operating revenues	
Gasoline and oil sales	\$ 616,097
Hangar rent	17,420
Landing fees	15,405
Tie down and parking fees	12,312
Leases	15,015
Store sales	3,179
Car rental commissions	2,235
Other	3,261
Total operating revenues	684,924
Operating expenses	
Gasoline and oil	470,534
Salaries and wages	105,835
Payroll taxes	8,728
Employee benefits	44,636
Administrative expense	1,932
Maintenance	20,883
Store merchandise	2,085
Equipment rental	420
Insurance	30,892
Professional fees	12,141
Depreciation	62,314
Credit card fees	17,820
Utilities	5,710
Telephone	2,681
Office supplies expense	159
Other expense	2,000
Total operating expenses	788,770
Operating loss	(103,846)
Non-operating revenues	
State contributions	548,628
Appropriations	45,367
Interest income	3,707
Total non-operating revenues	597,702
Change in net assets	493,856
Net assets, beginning of year	684,192
Net assets, end of year	\$ 1,178,048

The accompanying notes are an integral part of these financial statements.

HARBOR-PETOSKEY AREA AIRPORT AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2006

Cash flows from operating activities	
Cash collected from customers	\$ 672,293
Cash paid for employee wages and benefits	(105,835)
Cash paid for other operating expenses	<u>(616,961)</u>
Net cash used in operating activities	<u>(50,503)</u>
Cash flows from capital and related financing activities	
Member appropriations	45,367
Purchase of property and equipment	<u>(33,969)</u>
Net cash provided by capital and related financing activities	<u>11,398</u>
Cash provided by investing activities	
Interest income	<u>3,707</u>
Net decrease in cash and cash equivalents	(35,398)
Cash and cash equivalents, beginning of year	<u>75,095</u>
Cash and cash equivalents, end of year	<u>\$ 39,697</u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (103,846)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	62,314
Changes in operating assets and liabilities which provided (used) cash	
Accounts receivable	(14,453)
Inventory	3,128
Prepaid expenses	65
Accounts payable	377
Accrued expenses	90
Unearned revenue	<u>1,822</u>
Net cash used in operating activities	<u>\$ (50,503)</u>
Non-cash capital and related financing transactions	
Acquisition of airport improvements from State of Michigan contributions	<u>\$ 521,058</u>

The accompanying notes are an integral part of these financial statements.

HARBOR-PETOSKEY AREA AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The *Harbor-Petoskey Area Airport Authority* (the “Authority”) is a non-profit Michigan corporation created January 13, 1988 under the authority of Act 206, Michigan Public Acts of 1957, as amended. The purpose of the Authority is to plan, promote, construct, improve, own (or lease), maintain and operate an airport for the benefit of the participating local units of government by providing services to airport users. A board consisting of one member of the following local units of government, all located in Emmet County, Michigan, governs the Authority:

City of Petoskey
City of Harbor Springs
Township of Bear Creek

Township of Little Traverse
Township of West Traverse
Township of Pleasantview

The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in generally accepted accounting principles. The basic, but not the only, criteria for including an agency, institution, authority or other organization in the governmental unit’s reporting entity is the exercise of oversight responsibility over such agency by the governmental unit’s elected officials. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters. Based on these criteria the reporting entity includes only the Harbor-Petoskey Area Airport Authority.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on the non-fiduciary activities of the Authority. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Authority had no *governmental activities* during the year ended June 30, 2006.

HARBOR-PETOSKEY AREA AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

C. Measurement focus, basis of accounting, and financial statement presentation

Government-wide, Proprietary Fund Financial Statements. The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary fund operating revenues, such as gas and oil sales, hangar rentals, and other related revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as appropriations and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue is recognized in the financial year for which it is earned. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed for proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's proprietary fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting that definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

HARBOR-PETOSKEY AREA AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

D. Assets, Liabilities and Net Assets or Equity

1. Deposits

The Authority's cash and cash equivalents are considered to be demand deposits.

2. Receivables

All receivables are reported at their gross value net of an estimated allowance for uncollectible accounts, when applicable.

3. Inventory

Inventory consists of airplane fuel and other merchandise available for resale, and is reported at the lower of cost or market on a first-in, first-out basis.

4. Prepaid Expenses

Prepaid expenses consist of payments made to vendors for services that will benefit future periods. The Authority's prepaid expenses include amounts expended for insurance coverage that extends into the ensuing fiscal period.

5. Capital Assets

Capital assets are defined by the Authority as assets that are used in operation and have an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are purchased or constructed. Capital assets of the Authority are depreciated using the straight-line method over the estimated useful lives as follows:

	<u>Years</u>
Land improvements	20 years
Buildings and improvements	40 years
Other leasehold improvements	20 years
Vehicles	5-7 years
Equipment	5 years

HARBOR-PETOSKEY AREA AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

6. *Compensated absences*

Authority employees are not allowed to accumulate sick leave or compensatory time. The Authority has no measurable liability for compensated absences.

7. *Federal Income Taxes*

The Authority is exempt from federal income taxes under Section 115 of the Internal Revenue Code. It qualifies as a non-profit municipal organization formed to maintain an airport on land owned by a municipality, and it serves the general public consistent with Revenue Rule 8-429, 1978-CD 178.

8. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Authority adopts an annual budget each year for expenses applicable to the Proprietary Fund. The operating budget includes proposed expenses and the means of financing them and is stated on a basis consistent with accounting principles generally accepted in the United States of America. Budgets lapse at fiscal year end.

HARBOR-PETOSKEY AREA AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS

A. Deposits

The Authority is authorized by state statutes to invest surplus funds in the following:

- (a) Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- (c) Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- (d) In banker's acceptances of United States banks.
- (e) Obligations of the State of Michigan and its political subdivisions that, at the time of purchase, are rated as investment grade by at least one standard rating service.
- (f) Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- (g) External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The Authority's investment policy allows for all of these types of investments.

The Authority maintains interest-bearing checking and saving accounts at a bank.

Deposit balances as of June 30, 2006 consisted of cash and cash equivalents of \$39,697. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year end, \$0 of the Authority's bank balance of \$88,081 was exposed to custodial credit risk because it was uninsured and uncollateralized.

HARBOR-PETOSKEY AREA AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

B. Capital Assets

Capital assets activity was as follows for the year ended June 30, 2006:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 1,120	\$ -	\$ -	\$ 1,120
Construction in progress	-	49,820	-	49,820
Total capital assets not being depreciated	<u>1,120</u>	<u>49,820</u>	<u>-</u>	<u>50,940</u>
Capital assets being depreciated				
Land improvements	641,730	503,538	-	1,145,268
Buildings and improvements	61,694	-	-	61,694
Other leasehold improvements	59,535	-	-	59,535
Vehicles	64,368	-	(2,855)	61,513
Equipment	20,826	1,669	(1,700)	20,795
Total capital assets being depreciated	<u>848,153</u>	<u>505,207</u>	<u>(4,555)</u>	<u>1,348,805</u>
Accumulated depreciation				
Land improvements	(195,847)	(50,130)	-	(245,977)
Buildings and improvements	(15,155)	(1,543)	-	(16,698)
Other leasehold improvements	(35,064)	(2,861)	-	(37,925)
Vehicles	(38,942)	(7,110)	2,855	(43,197)
Equipment	(18,668)	(670)	1,700	(17,638)
Total accumulated depreciation	<u>(303,676)</u>	<u>(62,314)</u>	<u>4,555</u>	<u>(361,435)</u>
Total capital assets being depreciated, net	<u>544,477</u>	<u>442,893</u>	<u>-</u>	<u>987,370</u>
Capital assets, net	<u>\$ 545,597</u>	<u>\$ 492,713</u>	<u>\$ -</u>	<u>\$ 1,038,310</u>

HARBOR-PETOSKEY AREA AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

4. OTHER INFORMATION

A. Leases

Hangar Rentals – The Authority, as part of its normal operating procedures, leases airplane storage to airport users. Leases are entered into on an annual basis with rents being paid monthly. Hanger rental revenue generated during the year ended June 30, 2006 was \$17,420.

Other Leases – The Authority receives certain revenues derived from the lease of land. Under the provisions of these leases, the tenants were permitted to construct or maintain facilities restricted for their exclusive use which are separate and apart from normal airport facilities. Revenue generated during the fiscal year ended June 30, 2006 was \$15,015. The Authority is not committed to maintain facilities or expend funds under these lease arrangements.

The Authority leases airport facilities including land, buildings and certain equipment from the City of Harbor Springs (\$1 per year). The lease is for 25 years and automatically renews each year for an extension of one year. The lease obligates the Authority to operate and maintain the airport in conformance with federal and state guidelines and regulations, and to promote and develop the airport for the benefit of the community. Either party can opt to not extend the lease beyond the 25 years; however, the Authority anticipates the lease will be renewed annually.

B. Risk management

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which it obtains coverage from commercial insurance companies. The Authority has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

C. Commitments

In May, 2006, the Authority entered into contracts with the Michigan Department of Transportation (“MDOT”) for crack sealing and pavement marking projects. The estimated cost of these projects is \$17,000. State grants will pay \$8,500 of the cost and the remaining \$8,500 is to be paid by the Authority.

HARBOR-PETOSKEY AREA AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

D. Subsequent events

In July, 2006, the Authority entered into a contract with MDOT for the design and construction of south side hangar area taxi lanes, extension of the access road, relocation of the connector taxiway and construction of a parking lot. The estimated cost of the project is \$430,000. State grants will pay \$387,000 of the cost and the remaining \$43,000 is to be paid by the Authority. As of June 30, 2006, the Authority had expended \$3,230 of its local match.

In August, 2006, the Authority entered into a contract with MDOT for the design of a terminal building. The estimated cost of the project is \$90,000. State grants will pay \$85,500 of the cost and the remaining \$4,500 is to be paid by the Authority.

* * * * *



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

November 14, 2006

Board of Directors
Harbor-Petoskey Area Airport Authority
Harbor Springs, Michigan

We have audited the basic financial statements of the *Harbor-Petoskey Area Airport Authority* (the "Authority") as of and for the year ended June 30, 2006 and have issued our report thereon dated November 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the Authority, and the Authority's Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.